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APPEARING BEFORE THE

COMMITTEE ON WAYS AND MEANS

AT HEARINGS ON

SOCIAL SECURITY AND WELFARE PROPOSALS

BEGINNING ON OCTOBER 15, 1969

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Statement
by
Robert H. Finch
Secretary of Health, Education, and Welfare
before the
Committee on Ways and Means
U. S. House of Representatives
Wednesday, October 15, 1969, 10 AM

Mr. Chairman and Members of the Committee:

I am pleased to testify before your Committee today. I know of the outstanding performance of this Committee during the past 34 years in connection with social security legislation. And I have had the opportunity to observe the excellent working relationship that exists between the Committee and the Department of Health, Education, and Welfare.

Over the past several months, many of us in the Department of Health, Education, and Welfare have devoted much of our time and efforts to the subject areas covered by the Social Security Act.

My presentation is not a definitive statement on the Social Security Act, but rather is an attempt to deliver an overall view of the Administration's position on necessary reforms.

President Nixon has sent several Messages to the Congress this year recommending amendments to the Social Security Act. The emphasis of these proposals is three-pronged; first and principally on jobs, second on an assured income growing out of social security and unemployment insurance when the worker's income is cut off, and finally on a supporting work-oriented family assistance program. These amendments propose: -- a sweeping and much-needed reform of assistance programs that aid families

with children -- changes in the assistance programs for the needy adults who are old, blind, or disabled -- increased social security cash benefits -- a system for automatically guaranteeing that the purchasing power of social security benefits will be kept up to date with future increases in prices -- broadened protection by social insurance programs -- a restoration of the actuarial balance of the hospital insurance trust fund.

The new Family Assistance Plan recognizes that everyone who can do so should have the opportunity to work and support himself and his family. The program provides for greatly expanded training opportunities, expanded facilities for children of working mothers, and greatly increased work incentives within the design of the assistance program itself.

Registration for work and training is a key part of the new approach, but even more important is the emphasis upon expanded opportunities for the individual. We do not want to continue a situation in which large numbers of people have little choice but to rely solely upon assistance payments for the support of their families. We want rather to develop a system which gives people the opportunity and incentive to become independent and self-supporting.

We believe too, that to the extent possible we should prevent need through social insurance rather than rely upon an assistance program to meet need after it has arisen. The worker should have the opportunity, as he works, to earn protection against the possible loss of his earnings. This is the function of social security and unemployment insurance -- to

give the worker and his family basic security against the loss of earned income arising because of unemployment, disability, old age, or death. Thus, the Administration's proposals in the areas of unemployment insurance and social security are complementary to our recommendations in the welfare area.

Medicare, Medicaid and maternal and child health programs are designed to help meet the medical needs and expenses of older people and those with low incomes and therefore are supplements to our income support program. We are proposing a number of changes in these programs which we feel will be the beginning of the control of rising costs in these programs.

Mr. Chairman, each of these proposals should be understood in context as well as individually. Therefore, I will give an overview of each of the proposals, after which other officials of the Department will present a more indepth analysis of each proposal.

I will first examine the urgently needed Family Assistance Program, then comment on social services, proceed to the social security amendments, and then finish my formal statement with a discussion of rising health costs and the immediate steps we are taking within the Department.

The Family Assistance Act of 1969

Mr. Chairman, I welcome this opportunity to discuss H.R. 14173, the Family Assistance Act of 1969.

This measure is the product of months of intensive study, beginning even before the inauguration with the President's Transition Task Force. After analyzing many proposals offered by recognized experts within and without the Federal Government, we have concluded that a radical reform of the structure of welfare is needed.

We sought, in designing the Family Assistance Plan, to identify and deal directly with the most pressing problems facing public welfare today. While it is a far-reaching and fundamental reform of public welfare, the Family Assistance Plan is a practical and pragmatic program. It is neither a universal income maintenance system, which we cannot afford at the present time, nor a guaranteed annual income, which we feel could undermine an individual's motivation and rewards for work.

This problem solving approach, rather than a theoretical approach, highlighted the following key areas which needed immediate solution and redirection:

1. The gross inequities that existed between categories of persons equally in need under the present welfare system;

2. The gross inequities from State to State;

3. The increasingly complex and controversial management crisis in welfare; and

4. The economic incentives which, in the present system, weigh more in favor of continued dependency and family break-up than the reverse.

The program we support is directed toward helping needy people to help themselves through work incentives and work requirements bolstered by expanded training and day-care opportunities, toward an elimination of the family break-up incentive, and toward the establishment of National minimum payment and eligibility standards. It would do these things in a way that will not further add to State fiscal burdens.

Public Assistance Today

In June 1969, a total of 10.2 million persons received public assistance from Federal, State and local funds. Of these, somewhat less than 800,000 were recipients of general assistance in which the Federal Government played no part. Among the 9.4 million persons receiving aid under Federally aided programs, slightly less than 1/3 were the adult categories--the aged, blind, the disabled--and nearly 6.6 million persons--over 2/3--were recipients under the program of Aid to Families with Dependent Children.

The Adult Categories

In the adult categories the situation is a relatively stable one, with the caseload increasing by about only 3.5 percent in the last year. Slightly over 2 million needy aged persons received assistance in June, an increase of only 17,000 over the preceding year. Their payments averaged $70.55 a month. However, nearly 60 percent of these persons also received social security benefits so that their total incomes were significantly higher than assistance payments alone. Old-Age Assistance

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(OAA) recipients constituted 10.4 percent of the persons in the country over age 65. However, this proportion varied widely. It was 2.7 percent in Connecticut and 40.7 percent in Louisiana.

The caseload of blind recipients has been consistently about 80,000 persons during the past year. The permanently and totally disabled numbered 755,000 in June, an increase of 85,000 over a year ago. Among the blind and disabled, about 20 percent also have social security benefits.

In view of the relatively stable caseloads in the adult programs, we felt that the major problems which they present are very low benefits in some States (less than $39.40 a month under OAA in Mississippi in June 1969, ranging up to $116.25 in New Hampshire) and differences in eligibility requirements among the various States.

We propose to continue as a Federal-State program a combined program for needy, aged, blind, and disabled persons. We propose, however, to establish for the first time a Federal floor--$90 a month--of income and assistance which would be assured to adult recipients in any State. This new Federal floor would act to raise benefits for about 1/3 of the present OAA recipients, or about 670,000 persons, and would push up benefit levels in the 13 lowest payment States, plus the District of Columbia. The $90 floor, when aggregated on a yearly basis for an aged couple, comes to $2160, an amount which is actually slightly above the poverty line of $2100 for an aged couple as that line has recently been redefined for 1968.

We make this proposal for a Federally established income floor for the adult categories in recognition of the fact that neither work incentives nor family stability incentives are the answer to the dependency of these people. We must do what we can through social and rehabilitation services to bolster self-support and self-care capacity among these recipients, but in the last analysis it must be our obligation to move toward an adequate level of income support for the aged, blind and disabled. Adequate income support where it is necessary is one of the measurements of a just and humane civilization.

We further propose to make uniform the definitions of resources, used in determining family eligibility under the program. Certain options for administration of these payments are also opened up to harmonize this system with the Family Assistance Plan, and those options will be discussed later.

In order to make these reforms possible we are proposing a liberalized formula for Federal financial participation under which the Federal Government would provide an average of $50 per month to recipients, half of the next $15, and 1/4 of additional amounts. The formula for Federal participation would, of course, apply only to payments actually made. This would provide substantial fiscal relief to most States.

THE AFDC PROGRAM

Most of the controversy around welfare programs centers around the program called AFDC--Aid to Families with Dependent Children. In this program costs have more than tripled since 1960 to an estimated total of more than 4 billion dollars in this fiscal year. The Federal Government will pay about half of this cost. During the same period, the number of recipients has more than doubled to a present total of more than 6.5 millions.

The rate of growth has been alarming and verging recently on the catastrophic. It took 15 years for AFDC payments to reach the half billion dollar mark, and another ten years to break a billion. But what took from 1935 to 1960 was duplicated in the short period from 1960 to 1967 when another billion dollars was added to payments. And in the next year alone payments soared by a half billion dollars.

Even more disturbing is the fact that the proportion of persons on AFDC is growing. In 1955, 30 children out of each thousand received aid. In June more than 60 children out of each thousand received aid. In studying the program, our estimates indicated that by the fiscal year 1975, costs would again double and numbers of persons increase by another 50-60 percent.

In spite of its growth and its cost, the program is beset by inequities. Children of a parent who has died, is incapacitated, or is absent from the home, are eligible in all States. Those with an unemployed father are eligible in about half the States. Those with a father

employed full-time are not eligible in any State. Thus a premium is placed on a home breaking up and an incentive exists for the breadwinner to leave.

Many fathers work full time but still do not earn as much as is available to families on welfare who may live nearby. The discontent of the working poor is understandable and destructive to the fabric of our society. The exclusion of the working poor is also the central structural defect of the system since it is what creates the family breakup incentive and undermines the rewards of work. This exclusion also has begun to take on ominous and socially polarizing racial overtones, for AFDC recipients--those who are helped--are about 50 percent nonwhite while the working poor--those who are excluded--are 70 percent white.

The State-to-State inequities which I described with respect to the adult programs are magnified in the AFDC program. In June, a recipient in Mississippi averaged $10.20 per month. In New Jersey, recipients got an average of $66.40. In Indiana, 22 children out of each thousand received aid. In New York, 107 children out of each thousand were helped.

In sum, in spite of the size of the effort, AFDC has engendered bitterness and resentment.

The poor who receive it have organized to fight those who administer it.

Many poor who are eligible continue to deprive themselves rather than submit to its indignities.

The middle class, far removed from the need for welfare and the people who receive it, is angry both at the cost in taxes and at the behavior attributed to some welfare recipients.

The large cities resent the flow of poor people from rural areas where welfare benefits are often inhumanely low.

State governments, staggered by the fiscal impact, cry out for relief.

Against this background, we concluded that major structural reform was necessary to correct, insofar as possible, the inequities of the old system. The first priority of the Family Assistance Plan has been to remove, or at least minimize the disincentives and inequities of present welfare policies. It is designed to strengthen family life and to provide strong and effective incentives for employment. This strategy may not pay off immediately, but unless this investment is made now, fundamental reform will be even more expensive in the future.

The Family Assistance Plan also provides some fiscal relief for hard-pressed States and at the same time raises benefit levels for recipients in those areas where they are lowest. But these goals, it must be said, cannot be our first priority at the present time. There are others who would invest more of our available resources in benefit increases or in a federalization of the program designed to provide maximum fiscal relief to the States. These are not easy priorities to weigh and balance, but we have concluded that--while those other approaches might be politically more popular in many respects--they only pour more Federal money into a system doomed to failure. The system must be

changed, not just its payment levels or the division of labor between the Federal and State governments within it.

The Family Assistance Plan

1. Help for the Working Poor

We propose to replace the present AFDC program with a new program, "The Family Assistance Plan," which would provide direct Federal payments to all needy families with children. Unlike the present program of Aid to Families with Dependent Children, the new plan would for the first time provide Federal benefit payments for families headed by full-time male workers as well as for families headed by a mother or an unemployed father. No State today provides assistance under AFDC for a family headed by a father who is working full time—even though the family may be living in poverty. This is the group of some 2 to 3 million families which we call "the working poor." A few States have already undertaken this structural reform on their own initiative by providing help through their general assistance programs to some or all of the working poor.

The Federal benefits would also be provided throughout the Nation to families headed by unemployed fathers. Today such assistance is available in only 25 of 54 jurisdictions. Eligibility of the working poor for assistance and a nationwide program for families headed by an unemployed father are the critical steps toward eliminating the harshest inequities of the present system. Without including the working poor, fundamental improvement of the work and family stability incentives is impossible.

2. The Family Unit

As indicated by the term "family assistance," the new program is based upon the existence of a family unit. The presence of a child in the household is, therefore, the key to eligibility in this proposal. When a family meets income and resources tests, payments under the plan would be made for all members who are related by blood, marriage, or adoption, as long as there is at least one family member who is under age 18, or under 21 if regularly attending school.

3. Treatment of Resources

Under the present public assistance programs, families with substantial resources are not eligible for payments because they could become at least temporarily self-supporting by converting all or part of their resources into cash or income-producing property. This concept and rationale is retained in H.R. 14173. Families with more than $1500 in resources other than their homes, household goods, personal effects, and other property essential to their means of self-support, are not eligible for assistance payments under this proposal.

4. Basic Amount of Payment

The basic yearly Federal payment for an eligible family would be at the rate of $500 a person for the first 2 family members and $300 for each additional member, less whatever nonexcluded income the family has. This would establish a Federal income floor of $1600 per year for a family of four with no other income.

5. Treatment of Income

Generally, assistance benefits would be reduced $1 for each $2 of earned or unearned income that the family has. This kind of offset would provide an incentive for the family to work and increase its earnings. The treatment of unearned income on the same basis as earned income eliminates an important inequity in the present law. Under AFDC, since unearned income is offset dollar for dollar against benefits, while benefits are reduced by 67 cents for a dollar of earned income (after the first $30 per month of earnings which are completely excluded), families with the same incomes are treated very differently in terms of eligibility and amount of benefits depending on the source of their income.

6. Incentives to Work

As an additional work incentive, and to cover the costs of going to work, the first $180 of earnings in a calendar quarter ($720 a year) would be completely excluded or disregarded in determining the amount of payments for a family. An example might be useful at this point--suppose a family of four had earnings of $2000 a year. The family would first be allowed to disregard $720. Then 50 percent of the remaining $1280 of earnings would be disregarded. The family's payment of $1600 would then be reduced by the nondisregarded earnings of $640 (50 percent of $1280), giving the family assistance payment of $960 and--combined with the earnings of $2000--a total income of $2960.

There would not be a reduction in the amount of payments for the value of food stamps and other public assistance or private charity.

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7. Families Helped to Become Self-Sufficient

The new system is designed to fulfill the mandate of the President that government has "no less of an obligation to the working poor than to the nonworking poor; and for the first time, benefits would be scaled in such a way that it would always pay to work."

But the built-in guarantee that people would always be better off by working would be bolstered by strong work requirements in the system itself. Members of families that apply for assistance payments under the plan would be required to register for employment or training with the local public employment office and to accept a training or suitable job opportunity when offered. Failure to register or accept such a job or training opportunity would result in termination of the individual's benefits. All able-bodied adult family members would be subject to these provisions, with certain defined exceptions of which the major ones involve exemptions for mothers with children under six years of age and for other mothers where the father is present in the home as the primary worker.

The rationale for these provisions is well known to this Committee, which initiated similar requirements as part of the 1967 amendments to the Social Security Act. It was well stated in the President's Message to the Congress on August 11:

> "...there may be some who fail to seek or accept work, even with the strong incentives and training opportunities that will be provided. It would not be fair to those who willingly work, or to all taxpayers, to allow others to choose idleness when opportunity is available. Thus, they must accept training opportunities and jobs when offered, or give up their right to the new payments for themselves. No able-bodied person will have a "free ride" in a nation that provides opportunities for training and work."

To make these work incentives and requirements effective, we are seeking a major expansion of our job training, employment and child care programs. Family members referred for training and accepted in a program will receive a monthly training allowance of $30 in addition to their family assistance benefits and supplementary State payments, or the normal manpower training allowance in lieu of these if it is higher. Over $600 million is being requested for these elements, of which $386 million is for the child care component, and we will be joining with the Department of Labor in a new interdepartmental mechanism to make these programs do the job.

8. Child Care

The provisions for child care and supportive services under H.R. 14173 are an essential supporting element in our efforts to make it possible for welfare recipients to obtain training and employment. It is an established fact that inadequate care of the children of a trainee or employee can result in the early withdrawal of that person from the labor market, and the absence of child care can often mean no initial participation. Past experiences in programs sponsored by the Labor Department and the Office of Economic Opportunity have

demonstrated the difficulties of lack of day care. Particularly tragic have been the cases in which women have enthusiastically entered into training programs with day care provided, only to discover that the day care disappears when they are ready to go to work.

Beyond the value of the day care to the working parent there are enormous benefits which accrue to the child who is enrolled in a comprehensive child development program. We now know that the child of poverty needs far more than custodial care if developmental deficits are to be overcome. It is this type of comprehensive child care involving educational, medical, dental, nutritional and follow-up activities, that is contemplated by the President's recommendations.

There could also be substantial benefits to those at the opposite end of the age spectrum, the Nation's elderly. Among our Nation's older population there is a tremendous reservoir of men and women talented in working with children. It has been the experience of the Department of Health, Education, and Welfare, in administering the Foster Grandparents Program and other programs employing the elderly to serve children that increased opportunities for interaction between the elderly and children can not only provide a needed income supplementation for the elderly, but can also have beneficial effects for both age groups.

A family receiving benefits will be eligible for the child care services whenever such care is necessary to permit an adult member to undertake, or continue in training or employment. This care may be provided in the child's own home, in a family day care home or in group day care.

New ground is being broken by the proposal to provide grants directly to State or local public agencies or nonprofit private agencies or organizations, and to contract with public or private agencies or organizations to provide such child care. The need for day care is so great that we believe it will be necessary to use a wide variety of competent organizations.

I believe that this provision opens the door to a wider utilization of resources than we have been able to obtain in the past. It enables the Federal Government to take the direct initiatives to get the program moving and to assure the effectiveness of the training and employment components. The same provision would also enable the Federal Government to contract with businesses, industry, and with labor unions to provide day care services for the children of their employees and members who have been involved in the Family Assistance Program. We have long been seeking ways to expand the participation of these groups in the provision of day care services, because of the obvious benefits to the employer, the employee, and the child.

H.R. 14173 would fund up to 90 percent of the cost of child care projects, and would permit the 10-percent non-Federal share to be provided in the form of services or facilities when approved by the Secretary. Our experience has been that States and local communities have all-too-often been unable to undertake day care projects because of their inability to provide the 25-percent non-Federal, or local share under present law.

In the past, programs have been jeopardized or shelved because the projects in local communities could not afford to finance the alterations, remodeling, or renovation of facilities necessary to meet local licensing standards. H.R. 14173 authorizes funds to be used for these purposes.

The proposal also authorizes the Secretary to require families to pay for all or part of the cost of child care services when there is an ability to do so. However, the Secretary may prescribe regulations which permit the family to deduct all or part of such costs from the earned income which otherwise would reduce the assistance payment.

The President has made a National commitment to the needs of children in the vital first five years of life. H.R. 14173 would help the Nation take considerable strides toward fulfilling this commitment. Calling for an expenditure of $386 million for the first year of operation, 300,000 school-aged children will be able to receive services after school and during the summer months, at an estimated cost of $400 per child. In addition, 150,000 preschool children could receive full-day services, at a cost of $1600 a child. The balance would be applied to research and demonstration projects, to the training of personnel and to alteration or renovations of facilities.

I should like to stress that in all phases of the implementation of this legislation it is our firm and committed intention to work closely with the appropriate State agencies to coordinate all day care efforts under State and local auspices.

State Supplemental Payments

We recognize that the new Federal income floor of $1600 per year for a family of four ($133.33 per month) is not adequate to support needy families without other sources of income. Nevertheless, it represents a substantial improvement in the level of payments now made in eight States, and could be made more adequate when budget conditions permit. To assure the maintenance of present payment levels for families receiving public assistance, States that now provide a level of assistance higher than the proposed Federal floor are required to continue to pay the difference between the Federal floor and what they are now paying. In eight States, the new family assistance payments would exceed the present Federal-State payments under AFDC—in some cases by a wide margin.

The AFDC payment for a family of four is $133 per month or less in the following States as of July 1969:

Alabama	$ 81.00
Arkansas	100.00
Georgia	133.00
Louisiana	119.00
Mississippi	70.00
Missouri	130.00
South Carolina	99.00
Tennessee	129.00

Accordingly, on the average, 42 States will be required to supplement families above the Federal minimum floor. This supplementation is a requirement that States must meet to continue to receive Federal funds to help finance other Federal-State welfare programs, including the adult category programs, maternal and child health and crippled childrens programs, social services, and medicaid. These States will be required to supplement in the case of families eligible under AFDC and AFDC-UF (unemployed father) programs, but they will not be required to supplement the new "working poor" recipients.

Costs of the Program

The estimated new Federal cost for all the proposals included in the Family Assistance Act is $4.4 billion per year. This estimate is based on data for calendar year 1968 and assumes 100 percent program participation by eligible families and persons. The $4.4 billion is the incremental or new cost of the program, and is in addition to the $3.2 billion in Federal funds spent on welfare in 1968.

This figure of $4.4 billion is higher than the $4.0 billion estimate in the President's Message of August 11, largely as a result of the recent decision to treat unearned income like earned income in the "disregard" provision.

The following table shows the cost estimates for each of the Act's major provisions:

Provision	Added Federal Cost (billions)
Family Assistance payments	$3.0
Adult Public Assistance changes	0.4
Federal Payment to States (Part E)	0.1
Training and Day Care	0.6
Administration and Other	0.3
Total	$4.4

Being particularly conscious of the difficulty of producing reliable cost estimates in this field, and mindful of the variations of the actual experience from the projections which have been provided to the Congress

in previous years, we have taken extreme care in arriving at these figures. The methodology used was worked out under the leadership of the Bureau of the Budget in an interagency procedure involving this Department, the Department of Labor, the Office of Economic Opportunity, the Council of Economic Advisers, and the President's Commission on Income Maintenance. The most recent survey data on personal income available to the Federal Government was used.

Nevertheless, we have thought it prudent to request that an entirely independent estimate of the critical item, the family assistance payments costs, be made by the Chief Actuary of the Social Security Administration. That estimate shows a net cost of $3.5 billion for family assistance payments for calendar year 1971, a figure reasonably close to the calendar 1968 figure of $3.0 billion produced by the interagency group. We hope to have that latter figure brought up to date in 1971 terms very shortly and will supply it to the Committee.

In light of this double-checking procedure, and given the difficulty of estimating costs on a new program of this magnitude, we feel reasonably confident in suggesting that the payment costs of the Family Assistance Plan will fall in the range of $3.0 to $3.5 billion in 1971.

Fiscal Relief to State and Local Governments

Under the Administration's proposed welfare reform system, all States would receive some fiscal relief. For each of the first five years after enactment, each State would be required to spend at least

50 percent of the amount that it would have spent under the present public assistance programs if they were continued. No State, however, would be required to spend more than 90 percent of the expenditures it would have incurred in any of these 5 years under existing law. Thus, fiscal relief to an individual State under this "50-90" rule will vary between 10 percent and 50 percent of what they would spend under existing law.

Administration of the Family Assistance Plan

The major job of administering the Family Assistance Plan will be performed by the Social Security Administration of the Department of Health, Education, and Welfare.

The Social Security Administration has developed over the past 34 years an expertise in the delivery of cash payments on a regular basis to millions of Americans. This experience and expertise will be brought to bear on many of the administrative problems in the Family Assistance Plan.

In determining initial and continuing eligibility, initial reliance would be placed upon detailed statements provided by applicants. Recipients of family assistance payments will be required to periodically report changes in income, family composition, and other factors related to eligibility and amount of benefits. The Social Security Administration will use the regular reports of earnings it receives in the course of

administering the social security program to verify past and present earnings and estimates made in the applicant's declaration of income. In-depth verification will normally be done on a sample basis, but will be used on a wider scale if experience indicates a need to do so.

Major Effects of the Welfare Reforms

By combining powerful work incentives and requirements, by including the working poor, by allowing a family to disregard $60 per month for work expenses, and by requiring that able-bodied adults register for training or employment, the Family Assistance Plan would help families to help themselves. The plan is therefore not an income guarantee, but rather a program of support for those who demonstrate a willingness to help support themselves.

By treating male-headed and female-headed families equally, the Family Assistance Plan would remove a major incentive for a father to leave home so that his family could qualify for welfare. In fact, the Family Assistance Plan provides an incentive for the father to remain at home because his presence increases the amount of the family's total benefit. Also, the provisions creating eligibility for assistance to families headed by a working male should reduce the incentive for employed men to separate from their families.

By establishing a national minimum payment and national eligibility standards the plan would reduce the inequities of the present program. In every State, the Federal payment for a family of four with no income

would be $1600, and when benefits under the President's food stamp proposal are taken into account, the value of the assistance to such a family would be about $2350 per year. In eight States, accounting for about 20 percent of present recipients, family payment levels will be increased. The new income floor will provide the aged couples with an income slightly above the current poverty line.

The Family Assistance Plan, combined with the Manpower Training Act, would provide a simplified and decentralized framework within which expanded training and day care facilities would greatly broaden the opportunities for assistance recipients to become self-sufficient economically productive contributors to our economy. Over 150,000 new training opportunities along with 450,000 quality child-care positions would be funded under this plan.

By providing for a new and separate revenue-sharing program along with the "50-90" rule, the plan would assure the States desperately needed fiscal relief. Furthermore, creation of a Federal program to cover the working poor and prevent their slipping into dependency, the States would be relieved of what might well have been the burden of increases in the welfare costs.

In summary, the Family Assistance Plan will, for the first time, insure minimum standards of payments for families with children, wherever they live. It will establish a new minimum standard of $90 for the aged, blind, and disabled. It will help able-bodied people become self-sufficient. It will provide training and work placement opportunities.

It will provide needed fiscal relief for the States. It will remove the economic incentive in the present welfare system for families to split apart.

We believe this comprehensive plan provides the best vehicle for this Nation to help break the poverty cycle. As the President said in his August 11th message, "We have it in our power to raise the standard of living and realizable hopes of millions of our fellow citizens. By providing an equal chance at the starting line, we can reinforce the traditional American spirit of self-reliance and self-respect."

Social Services

Mr. Chairman the major emphasis in this discussion has been, properly I think, on income maintenance. We are mindful, however, of the need for social and rehabilitation services as an essential corollary to an effective income maintenance program. The complexity of the problem faced by assistance recipients and other low income persons often seriously affects their ability to work, to care for themselves, and to provide necessary care for their children.

The Family Assistance Plan amendments provide, basically, for continuing the present arrangements for services. Our experience since the 1962 and 1967 legislation, however, indicates a need for improvements. In the development and planning work now being done, we are reconsidering the principles upon which we should base our service program, and we are analyzing the community resources which could be brought into the picture. We are convinced that, at least for

services, coverage should not be limited to those who receive public assistance. There are many persons who are not public welfare recipients for whom social and rehabilitation services can be as helpful as they are for public assistance recipients. Services at an appropriate time may avert the need for assistance.

We are also very much concerned about this situation with respect to foster care and adoption services. We believe that we must find ways to provide suitable help and leadership in these basic child welfare functions.

Another matter to which we are directing our efforts is the coordinating of the services program more closely with the resources of the State and local vocational rehabilitation agencies. Those agencies have a fine record of achievement in the rehabilitation area. We want to make full use of their resources. The Family Assistance Plan recognizes this and provides for the referral of persons who are not sent to employment offices because of incapacity or disability to a vocational rehabilitation agency.

We are aware of the interest of this Committee in this matter as indicated by the 1962 and 1967 amendments. I want to assure you of the deep concern of this Administration in these fields. These problems are high on our agenda. We are now working on ways to develop a more effective service program. We will be sending you definite legislative recommendations in the near future.

Social Security

Mr. Chairman, let me turn next to the social security proposals. I will discuss the highlights of the President's recommendations for social security and then later Commissioner Robert M. Ball will give a more detailed presentation.

The Administration bill is H.R. 14080, introduced by the Minority Leader, Mr. Gerald Ford of Michigan, and companion bills H.R. 14162 and H.R. 14134, introduced by Representatives Collier and Chamberlain respectively. Mr. Byrnes and Mr. Bush have introduced identical bills except that their bills would have an effective date for the 10-percent increase in cash benefits payments of January 1970 instead of March 1970.

Social Security Benefit Increase

The President has recommended a benefit increase to bring the benefits up to date with increases in the cost of living that have occurred since the last benefit increase in February 1968.

The increase would apply to all beneficiaries, including those getting the special payments for certain people age 72 and older. Under the proposal, effective for March 1970, benefits would be increased for all the 25 million beneficiaries. The total additional benefit outlays for the first full calendar year in which the increase is effective would be approximately $3 billion.

Automatic Cost of Living Increase

Beyond the initial 10 percent increase, the President has recommended that provision be made in the law for social security benefits to be automatically adjusted for future increases in the cost of living. The platforms of both political parties recognized the need to have a way of keeping the social security program automatically up to date. Such an automatic adjustment system would increase the security of the one out of every 8 people in the country who now receive monthly social security cash benefits. The automatic provision would also adjust the benefits for the millions of future beneficiaries whose major source of income could well be their social insurance payments under social security. Because of the time lags that have occurred between past cost of living adjustments of benefits, the purchasing power of the benefits has been seriously decreased between benefit increases. With automatic adjustments, the changes necessary to restore purchasing power will be on a more current basis.

The Administration proposal finances the automatic increases in benefits without increasing social security contribution rates. This can be done so long as the contribution and benefit base, the maximum amount of annual earnings counted for social security purposes, is increased from time to time. The legislation we support contains a provision to automatically adjust this base in the future to keep pace with increases in earnings levels.

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Retirement Test

H.R. 14080 also includes important changes in the social security retirement test--the provision under which benefits are not paid in full if a beneficiary has substantial earnings. This provision has been the object of widespread criticism.

The measure provides for replacing the present dollar-for-dollar reduction in benefits which now applies for earnings above $2880 in a year with a provision under which there would be a $1 reduction for each $2 earned. With this change people would have an incentive to earn more because the more they earn the more spendable income they would have.

The President also recommends updating the retirement test to take account of increases in earnings levels. It is proposed that the amount a person can earn in a year without having any benefits withheld be raised from $1680 to $1800, and then automatically adjusted upwards in future years as earnings levels rise.

The recommended changes in the retirement test would benefit approximately 1.1 million people. Additional benefits of $330 million would be paid for months in calendar 1971.

Contribution and Benefit Base

The President is recommending that the social security contribution and benefit base be increased in 1972 from the $7800 now in effect to $9000. This change will very closely maintain the relationship between the base and the general level of earnings that has prevailed since the

early 1950's. As indicated earlier he also recommends that after 1972 the base be kept up to date with rising earnings levels in the future.

Increases in Widows Benefits

Under present law, a widow who begins receiving benefits at age 65 is entitled to 82 1/2 percent of the amount of the spouse's primary benefit. Under this proposal, such a widow would be entitled to 100 percent of the spouse's primary benefit. The 82 1/2 percent rate will continue to apply to widows going on the rolls at age 62, with graduated proportions for ages above 62 and below 65.

An estimated 2.7 million people would have their benefits increased under this provision. On the average, the increase would amount to $17 per month (in addition to what widows would get under the 10-percent general benefit increase). Additional benefit payments in the first 12 months under the provision are estimated at $580 million.

Uniform Method of Computing Benefits for Men and Women

Under present law, the number of years over which a man's average monthly earnings (on which his benefits are based) and his eligibility for benefits are determined are figured up to age 65. For women these determinations are made up to age 62.

The President has recommended that the method of computing benefits for men and women be made uniform--as of age 62. As a result, the treatment of men and women workers under the benefit provisions would be the same; and the retirement benefits payable to men, the benefits payable

to their wives, and the benefits payable to survivors of men who live beyond age 62 would be increased.

About 5 million people--workers, dependents, and survivors--would have their benefits increased because of the change in computing the average monthly wage. In addition, about 100,000 people--75,000 men age 62 and over 25,000 dependents--would become newly eligible for benefits because of the liberalized insured-status requirement for men age 62 and over. Additional benefit payments in the first 12 months are estimated at $380 million.

Other Social Security Proposals

We are also proposing a number of important but less far-reaching improvements in the social security program. The bill would provide benefits for people disabled since childhood where the disability began before age 22, rather than age 18 as under present law. The bill would also provide for the payment of benefits to the aged dependent parents of retired or disabled workers. Under present law, parent's benefits are payable only to the dependent parents of insured workers who have died. And, finally, the bill would extend the $100 a month noncontributory wage credit for military service that was provided in the 1967 social security amendments for members of the armed services after 1967. Under the bill these credits would be available for the period from 1957, when regular social security coverage of members of the armed services began, through 1967. About 190,000 people would be immediately affected by these three proposals, and additional benefit payments in the first 12 months would be about $60 million.

Financing

The President's recommendations include financing provisions that would cover the cost of the proposed improvements in the social security program and correct the present actuarial deficit in the hospital insurance program. Moreover, a revised schedule of contribution rates in the cash benefits program would reduce the very large accumulations of income over outgo that would result from the schedule in present law.

The hospital insurance trust fund requires additional income over and above that scheduled under present law in near-future years. Without the proposed increase in the earnings base and the proposed speeding up of the scheduled increases in contribution rates for hospital insurance, the trust fund for that program would be depleted during fiscal 1973. As a result of the proposal to put into effect in 1971 the 0.9 percent hospital insurance contribution rate for workers and employers (each), now scheduled for 1987, and as a result of increasing the earnings base, the hospital insurance trust fund would grow to an estimated $5.2 billion at the end of fiscal 1973.

On the other hand, the present schedule of contribution rates for old-age, survivors, and disability insurance would, even with substantial benefit increases, result in very large-scale growth in the size of the

trust funds for these parts of the social security program. Under present law the cash benefit trust funds would increase from an estimated $38.7 billion at the end of the present fiscal year to about $75 billion at the end of fiscal 1973. Under the President's proposal the trust funds would reach $52.6 billion at the end of fiscal year 1973.

The postponement of the scheduled rate increases for the cash benefit parts of the social security program is consistent with past decisions by this Committee and the Congress to delay scheduled increases in the rates to avoid unnecessarily large increases in the cash benefit trust funds.

Overall, the combined contribution rates for both hospital insurance and cash benefits would be somewhat lower than the schedule in present law through 1976 and then the same from then on.

In summary the improvements we are recommending in social security today are substantial and important measures. We propose to bring benefit payments up to date and we propose to make sure that they stay up to date, automatically tied to the cost of living. We are also proposing important improvements in benefit protection for men workers and for widows and in other ways proposing to remove inequities in the system.

We are continuing to study all aspects of the social security program. The statutory Advisory Council on Social Security that I appointed in May is now conducting an extensive review of the social

security program, and we are looking to this Council for its recommendations on what further improvements might be made in the social security program. As the President said in his message on social security on September 25, "I emphasize that the suggested changes are only first steps, and that further recommendations will come from our review process."

Health Cost Effectiveness

Medicare and Medicaid have made major contributions over the past several years toward the availability of, quality of, and access to medical care for large numbers of people who are elderly or medically needy. The rising demands for medical care from the general population, combined with the newly created ability of the elderly and medically needy to financially compete for medical care, have placed great stress on inadequately and unevenly distributed manpower, facilities, and services. This has contributed to rapidly escalating medical care costs. Public and private action is needed to arrest the inflation in the health industry and to improve the health eare system so that high quality medical care will be available at prices people can afford.

We are forwarding the Health Cost Effectiveness Amendments of 1969 today to continue efforts already taken to improve utilization of existing health service capability, encourage better planning, and achieve more effective cost control.

The main provisions would encourage voluntary and State planning for health facilities and provide greater authority and flexibility to engage in incentive reimbursement experiments to create incentives for efficiency and economy. They would also strengthen our ability to control some of the abuses of the programs.

These proposals, which can be discussed in greater detail by Commissioner Ball and Arthur Hess, Deputy Commissioner of Social Security and Staff Director of the Task Force on Medicaid and Related Programs, are addressed to the following specific items:

1. Tying depreciation payments to State health planning.
2. Making corporate planning a condition of participation.
3. Expanding authority for reimbursement experimentation.
4. Barring providers and physicians who abuse the program.
5. Paying customary charges if less than cost.
6. Withholding payments where utilization review finds admission is not warranted.
7. Improving authority to recover overpayments in Medicare.

Task Force on Medicaid and Related Programs

While both Medicare and Medicaid have moved toward achievement of their goals, their problems differ significantly. Medicare is operating on a firm program and administrative base, with its major problem being one of escalating medical costs and prices. Medicaid, on the other hand, in addition to the inflation problem, has experienced serious deficiencies in management resources. Difficulties

in administration nationally are exacerbated by complexities in the Federal-State relationships, wide variations in eligibility and scope of services, and unpredictability in covered, need for, and availability of services.

In recognition of the serious and growing problems under the Medicaid program and to assist the Department in making major efforts to strengthen and improve the current program, I appointed a Task Force on Medicaid and Related Programs in July, chaired by Walter J. McNerney. The Task Force is concerned both with problems that are amenable to short-range solutions through administrative action and with technical changes in the areas of management, effectiveness of use, cost and eligibility. It will also consider solutions that might require fundamental changes in legislation.

Structural reforms in the Medicaid program are being studied and may be necessary to assure health care services for low income families and individuals. However, there are some improvements that can be made in the short run to overcome some of the problems.

The Task Force has worked closely with Departmental staff and has kept me closely informed about the nature of possible short-range recommendations. Consistent with Task Force recommendations, the Department will be moving rapidly to strengthen the management and staffing of the title XIX program, to develop the necessary policies and regulations on standards and on utilization review, to encourage the development and implementation of adequate information systems and to provide technical assistance to the States. We expect

that some of the Task Force recommendations will produce legislative proposals to improve the Medicaid program and make service more efficient and economical for assistance recipients. We will, of course, submit our proposals for congressional consideration at the earliest possible moment.

Conclusion

Mr. Chairman, in this testimony I have outlined the legislative proposals to improve and strengthen our social security and public assistance programs, as well as proposals to help control health care costs. I strongly urge the enactment of these proposals.

Thursday, October 16, 1969

Statement of George Shultz, Secretary of Labor
Before the Committee on Ways and Means
on the Family Assistance Act of
1969

Mr. Chairman and members of the Committee, I am pleased to testify on the proposed Family Assistance Act, for I believe that it is one of the most far-reaching pieces of social legislation in this area in several decades.

Let me start by saying that this is not a proposal for a guaranteed minimum income. Work is a major feature of this program. This is a program of family assistance--for families with children--and is limited to that specific group.

The Family Assistance Plan is a composite program of work incentives, training and employment opportunities, child care and income allowances.

I believe very deeply, Mr. Chairman, that the time has come to start over on providing assistance to needy families. We should not be content to just mend AFDC; the record is clear that AFDC doesn't work.

The Family Assistance Plan is a new start.

I believe the changes we propose are consistent with the forward-looking changes made recently by this Committee with regard to training opportunities, and the treatment of earned income. Family Assistance, in a sense, builds on

the foundations already laid by recent amendments to AFDC.

My responsibility lies not with the whole of the Family Assistance plan, but with its relationships to the labor market. It is my concern that the program be structured in such a way as to protect work incentives, and that the program in its total design be one that creates the strongest possible conditions for moving people from welfare into employment.

Thus, I will discuss the way the allowance motivates people to work, the role of training opportunities in reducing welfare, the operation of registration and work requirements, and our expectations for providing the necessary employment opportunities within the regular economy.

WORK INCENTIVES AND THE FAMILY ASSISTANCE STRUCTURE

I have identified seven specific ways in which the Family Assistance Plan promotes work. I will summarize each of these briefly.

1. The incentive of welfare recipients to go to work has been increased by enlarging the income disregard and limiting the reduction of Family Assistance to one-half of earnings. Employed AFDC recipients retain only the first

$30 of income plus one-third of earnings above that. Family Assistance recipients will be able to keep the first $60 of monthly earnings plus one-half of all income in excess of that amount.

The existence of a dual system in 40 States makes it necessary to compound tax rates to some extent so as to allow the States to reduce their supplemental payments as earnings increase.

However, the States would be directed to observe the same $60 earnings disregard in computing the State supplement, so that State practices do not nullify those of Family Assistance. Also the States may subtract only 17 cents of the supplement for each dollar of wages above the $60 disregard, bringing the total marginal tax rate on gross income to 67 cents on the dollar.

The disregard of the first $60 of earnings is based on Labor Department surveys of the "cost of work." This is based on budget studies made by the Bureau of Labor Statistics of outlays made for added food, transportation, clothing and personal care, medical care, payroll deductions, and occupational needs such as tools, licenses, and union dues. These costs must be recouped before the individual realizes

any additional income from working.

The result is a double incentive. When a welfare recipient goes to work, his or her combined wages and Family Assistance increase, so there is always an incentive to work. On the other hand, as earnings increase, the government saves money because the Family Assistance payment is reduced. Thus, the government has an incentive to provide the necessary training and employment opportunities.

2. The extension of coverage to the working poor eliminates the situation where those who do not work receive higher incomes than those who work. The present welfare system excludes from coverage those who work regularly but at very low wages. This sometimes creates situations where some who work may have less income than others who do not work at all. To expect them to continue work under such circumstances is to expect individuals to behave in a manner adverse to their own economic interests. This is no way to assure the public interest.

3. The incentive of the working poor to seek higher wage levels is preserved. Since there rarely will be a

State supplement for men already at work (because most State systems do not cover the working poor), the tax on earnings will be limited to 50%. This means it will always pay an individual to increase his earnings. Also, the bill contemplates a program to upgrade the skills of the working poor so they may qualify for higher wages.

4. There is a financial incentive to enter manpower training programs. When a recipient enters training, the family will receive at least a $30 increase in monthly income. If the allowance under the regular training program would be more than $30 higher than Family Assistance payments (plus State supplement), the supplement to the Family Assistance trainee will be the difference between the two allowances. So, in most cases the financial incentive to take training will be in excess of $30.

In the case of North Dakota, for example, Family Assistance plus the State supplement would equal $188 a month for a family of four. However, since the Manpower Development and Training Act allowance in that State for the head of a family of four is $255, the incentive payment would be $67 per month--the difference between $188 and $255.

In addition to the incentive payment, persons taking training will be reimbursed for necessary expenses, such as transportation.

5. The child care provided in this Act itself will be a strong employment and training incentive. The lack of adequate child care arrangements often has been the major barrier to entering training programs or seeking employment. The fact that child care will not only be available, but will be of high quality, will permit mothers to look upon child care as an opportunity for their children as well as an opportunity for the mothers to become economically self sustaining.

It should be recognized that child care is an investment in not one, but in two generations. It is an investment in the present generation in the sense that it frees the mother for training or employment. It is an investment in the next generation because it provides the child an early education, quality care, and attention to health and other needs. In looking at child care costs (and it is expensive), this double effect should be borne in mind, and we should not "charge" all these costs to helping welfare mothers get work. Much of the return will be in the

kind of education we owe our young people anyway and in reduced welfare costs in the next generation.

We have a long way to go in creating adequate child-care provisions in the United States. Yet, there is no doubt that we are capable of providing it. We did in World War II. When the Kaiser shipyards hired Rosie the Riveter, they built child care centers for Rosie's children, and kept them open 24 hours a day. Yet at the present time, only about two percent of the children of working mothers are being cared for under group care arrangements.

6. The system of financial incentives will be buttressed by requirements that certain categories of recipients register for training and employment with the local manpower agency. Every member of the family, with six exceptions specified in the law, are required to register with the Employment Service, and accept suitable employment. If a recipient refuses to register, or refuses suitable manpower services, training, or employment in which they are able to engage--without good cause--his portion of the Family Assistance payment will be denied. In such cases, the Secretary of HEW would continue to pay the remaining benefits to the rest of the family. Thus, the whole family will not be made to suffer.

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7. An "Employability Plan" will be developed for those who register for training and employment. The bill would require that such a plan be developed for all who register, while recognizing the need to set priorities if the volume of registrations is sometimes greater than available resources. This means that the manpower agency will assess the needs of the individual, ascertain what manpower services are required by that person to become self supporting, and follow through until the individual completes the plan.

THE ROLE OF TRAINING IN REDUCING WELFARE

Clearly, the Work Incentive program provided by the 1967 amendments to the Social Security Act has established a foundation on which to build a larger training program in support of the Family Assistance Act.

In reviewing the experience with that program thus far, I want to begin by saying, quite candidly, that we have some problems.

One of the most difficult problems has been the provision of child care. Public day care arrangements are still very scarce, and we could increase enrollments in WIN quickly if more were available. Secretary Finch has already discussed this problem with you. We feel that it is a

problem that can be overcome. Doing so may require some innovative approaches.

While the State Employment Service has made considerable progress, there is much to be learned about the problems of disadvantaged individuals. The restructuring that is necessary for really efficient service is slowed by delays in training and retraining personnel. State salaries are frequently too low to attract and retain the most qualified people for this important and demanding work. And, as I will emphasize later, the WIN approach is the most sophisticated we have developed to date.

Our attempts to move quickly to establish WIN has resulted in some localities opening their doors before the programs were ready to serve their clients. But these kinds of problems are being overcome with time.

So far, there has been a lack of consistency among the policies of the State welfare agencies in deciding who is "appropriate" for referral. This has created wide differences among the States in the size of WIN training programs relative to their welfare populations. For example, in New York, only 7% of those screened by the welfare agency were deemed appropriate for referral to the Employment Service.

However, in Utah 97% of the assessments were considered appropriate for referral. The proposal removes the word "appropriate," in favor of specific exceptions, and thus removes this inequity. Furthermore, since referrals will be made by the Social Security Administration, rather than State welfare agencies, a consistent nationwide policy will be achieved.

Despite attempts to coordinate the job development efforts among different manpower programs, and within the WIN program itself, there are still inefficiencies in this process. As a result, the different programs run the danger of competing for the same pool of jobs, instead of expanding that pool. And employers become irritated at being approached so many different times. The passage of the Manpower Training Act will correct many of the basic structural problems inherent in operating many programs, instead of a single comprehensive program.

In spite of these start-up problems, the WIN program is operating at a substantial level. The program opened its doors in October of 1968, enrolling almost 6,000 people

in that month. Then it grew steadily, reaching an enrollment of 64 thousand persons by the end of August of this year. Achievement of our enrollment target of 150,000 by the end of fiscal 1970 will make WIN one of the largest of the manpower programs. On a cumulative basis, 92,000 persons had been enrolled through August.

We conducted a survey of 4,600 WIN participants who had completed the program in six States. The majority were employed in clerical and sales work, service, and production, assembly, and construction occupations. The rest were spread among a variety of occupations such as, for example, motor freight transportation, materials handling, machine trades, and processing occupations.

In the States surveyed, the median earnings were $2.27 per hour. The median rate for men was $2.47 per hour, and for women, $2.02 per hour.

Effectiveness of training

The WIN program is young, for to date only 13,000 were employed following training. We cannot yet offer a firm judgment of success. However, we believe that it is a very promising program in concept and that its design is a rational one.

It provides a coherent cluster of services such as remedial medical attention, child care, job "coaches", orientation to the work world, basic education, job training, job counseling, placement, and intensive followup into employment.

All of these are fitted together in an individual employability plan, and by the team approach which brings all of the specialists together to serve a specific, assigned group of clients.

Most encouraging of all is the fact that mothers are volunteering for the WIN program, and that sanctions have been used for less than 200 persons. So far, none of them have been mothers.

Because of the importance of training to the goals of the Family Assistance Act, I would like to present this committee with the best information available on what can be expected from such training programs, by looking at the

experience of public assistance recipients trained under the Manpower Development and Training Act. About 24 thousand such recipients received training in 1968, and a total of 91 thousand were trained since the beginning of the MDTA program in 1963. MDTA provides a rough idea of what kind of success we will have under WIN.

Among public assistance recipients trained in 1967, 58 percent of those taking classroom training, and 72 percent of those receiving on-the-job training were in jobs at the time of follow-up surveys. Because WIN is a newer program with a broader range of coordinated supportive services, the success rate may be higher.

While the placement rates for public assistance trainees are lower than for others it is encouraging that public assistance recipients who did get jobs were receiving wages practically identical to those received by all MDTA trainees. In classroom training programs public assistance men earned $2.21 per hour, compared to $2.27 per hour for all graduates. And in the case of women, public assistance recipients earned $1.74 per hour, compared to $1.72 for all women graduates.

The wages were higher in on-the-job training, with public assistance men receiving $2.36 per hour, and women $1.80 per hour.

At even the lowest average wage, the $1.74 per hour, a family of four would at least be lifted to the poverty line. Moreover, current wage levels are likely to be from 8 to 10 percent higher than those received by graduates in 1967.

This does not mean that training is always going to remove people from the welfare rolls. Some don't get jobs after training, in spite of our efforts to relate to it current labor market needs. Others obtain jobs at wages insufficient to fully remove them from poverty. And still others find better paying jobs but lose them for one reason or the other.

The basic point is that training can be a significant tool for reducing welfare, but it cannot by itself do the whole job,and it will not always work for all people.

The Expansion of Training

The potential of training is great enough to warrant

a considerable expansion under the Family Assistance Program. In announcing the program, the President stated that training would be expanded by 150,000 persons during the first full year of Family Assistance. This would be in addition to the increased training levels already planned for WIN. Also, a skill upgrading program will be initiated for 75,000 of the working poor.

Registration

The Family Assistance Act requires registration for manpower services, training and employment with the local public employment office of the State. Those exempt from this requirement are as follows:

-- those ill, incapacitated, or of an advanced age

-- a mother or other relative caring for a child under six

-- the mother if the father or another adult male relative is in the home

-- a child

-- a person needed in the home to care for an ill member of the household

-- those working full time

The groups excluded from mandatory referral may register voluntarily if they choose to. The penalty for failure to register without good cause is the denial of benefits, by the Secretary of Health, Education, and Welfare, based upon notification by the Secretary of Labor that a person has not registered. In such cases, arrangements will be made so that other family members will continue to receive their allowances.

Out of the 5 million family heads covered by Family Assistance, we estimate that 1.1 million will be required to register, and that 1.8 million will already be working full time. In addition, there will be a substantial number of voluntary registrations. We believe this latter group will consist mostly of mothers with pre-school children, based on our experience with WIN.

An employability plan will be developed for each person who registers, "in accordance with priorities prescribed" by the Secretary of Labor. Our objective will be to provide such an employability plan for every person who registers. However, where the number of training opportunities are limited--whether by the availability of funds, the inability to expand training at the rate needed, or limitations on how many persons the labor market can absorb--it will be necessary to assign priorities for which groups are served first.

Your question, I am sure, is how the Employment Service is going to serve such a large number of additional people. The answer is that some new approaches are going to be needed in the way the Employment Service conducts its business. We have plans to change the method of operation. In some cases trial runs are under way. In others, such trials will commence very soon. As of now we have three major steps in mind.

The first is to introduce computers into employment service operations just as fast as it can be done. The computer enables us to establish a "job bank" which provides a daily print-out of all the jobs that are reported. This is in operation right now in Baltimore, and has greatly accelerated the ability of the Employment Service to place disadvantaged persons. For example, placement of disadvantaged applicants increased by 250 percent in Baltimore because of the wider exposure of job opportunities via the Job Bank. Then we can move on to computer matching of the man and the job, a system now in use in Utah and Wisconsin.

Our target is to have 54 job banks installed yet this fiscal year. By the end of calendar year 1970, we expect to expand this to 76.

In the next year or two a new Employment Service Automated Reporting System will be installed. This will permit us to "track" individuals through the application - employability - placement process so that we can improve the system on the basis of facts rather than intuition.

The second is to organize the local employment service office in a way that will enable it to meet its traditional responsibilities for providing job assistance to those who are not poor, at the same time that it frees its resources to provide intensive assistance to those who have really serious employability problems. For the better equipped group of clients, there is going to have to be more "self-service," and we believe that the computer will enable us to provide this in such a way that these clients are well served, without requiring the staff time now being used.

This new operating arrangement, which has the support of the Inter-State Conference of Employment Security Agencies, has already been designed, and will be tested for about a year in six cities.

The third is to provide unemployment insurance claimants, who on the average are re-employed rather quickly, with more

job information directly from the U.I. office, and thus lighten the burden on the Employment Service. The unemployment insurance office could have the list of job openings from the job bank, and supply that information directly. The information itself, of course, would have to come from the Employment Service.

This is being tried in five cities this year, including Baltimore which has the job bank. We are requesting resources to make this new system operational in the 55 largest metropolitan areas in fiscal year 1971. These areas account for about half of the total U.I. caseload.

Beyond these specific improvements in the Employment Service, an improvement is planned in the entire Federal-State system of providing all manpower services, including training. That approach is incorporated in the Administration's Manpower Training Act, which is pending before another Committee. The manpower services provisions of this bill are written to parallel the Manpower Training Act, so that when both are passed we will have an integrated manpower delivery system.

Joint Task Force

The Family Assistance Act is a major legislative proposal that requires close working relationships between the Labor Department and the Department of Health, Education, and Welfare.

Unfortunately, our two Departments have not always worked together as smoothly as they should. The study made by the Legislative Reference Service of the enactment of WIN establishes this fact. There have been gaps in communication, and a history of competition for running the work training program.

Secretary Finch and I plan to have a maximum of coordination in the administration of these joint programs. To achieve this, we are establishing a joint HEW-Labor Task Force for the implementation and conduct of the programs we are responsible for.

This Task Force will assure a commonality of objectives, and develop joint guidelines, reporting procedures, and evaluation plans.

THE WORK TEST

A Family Assistance recipient will be denied benefits if he refuses "without good cause to accept suitable employment in which he is able to engage." He must also accept suitable training and manpower services.

The key word is "suitable." It is a test that has long been used in unemployment insurance, and over the years, through agency and court interpretation, a large body of case law has established its meaning in different situations.

We expect that a similar process will occur in the case of Family Assistance. It will be applied on an individual by individual basis, under guidelines that the Secretary of Labor will be responsible for providing to the State agencies. There will be appeals, and there will be hearings on those appeals. Cases may be taken to court where matters will finally be settled.

I can be somewhat more specific than this. We intend to follow the same policy with respect to wages as we now do in WIN, and in the proposed Manpower Training Act. We do not require a person to take a job that pays less than the applicable minimum wage, or the prevailing wage, whichever is higher.

But a policy of this sort does not contain the whole story. Our objective is to move people out of poverty and off welfare. We are not going to be out looking for low wage jobs. We want the highest wages possible. And to the maximum possible extent we are going to train people for jobs at decent wages, whenever we find that they cannot get good jobs with their present skills.

There is no intention of doing anything that would undermine existing wage levels. We are not going to open up a new cheap labor supply to employers who are not paying the going rate.

Having said this, I hasten to add that the labor market itself must be recognized as a constraint on the full achievement of our expectations. It is a fact that our economy has a lot of jobs that pay low wages. We are not going to be remaking the economy in this program. We have to relate to the labor market. We can only put people in the jobs that exist.

What this means is that we will have to thread our way between our goals of providing good jobs--after training when possible--and the realities of the kinds of jobs that are available.

Although Family Assistance relies primarily on incentives to work, it does include sanctions. These sanctions should be put into perspective.

By and large we expect that people will take jobs as we eliminate the barriers that have stood in the way of employment. Studies have shown that people on welfare are little different in their attitudes toward employment than persons not on welfare.

With the strong incentives to work that are built into the Family Assistance structure, I do not believe that it will be necessary to use sanctions very frequently. It is clear, even at present, that the AFDC population is not a static one. People are leaving the rolls every day for a variety of reasons, including taking jobs. Of the 600,000 who left the rolls during 1968, 37% departed because of increased earnings of someone in the home.

The denial of benefits in the Unemployment Insurance system because of refusal to accept suitable work is a relatively infrequent occurence. In fiscal year 1969, less than .1 per cent of claimant contacts resulted in a disqualification from benefits due to refusal to accept suitable work.

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There undoubtedly will be some who will refuse work in Family Assistance, despite the strong incentives which exist. It would not be fair to those who do work, or to the Nation's taxpayers, to allow them to choose idleness and a "free ride." A work requirement is not unreasonable as a condition of receiving Family Assistance benefits.

THE WORKING POOR

By and large, the programs that have been designed thus far to fight poverty have concentrated on the unemployed or families without a breadwinner. But this is not the full face of poverty. In the majority of poor families, where the head is under 65, the family head is working. Thus, the working sector harbors as much poverty as the non-working sector.

Who and where are the working poor?

-- half live in the South

-- over one out of three of the family heads have less than 8 years of education

-- over four out of ten of the family heads do not work full time, the year round

-- one out of three is black

The Family Assistance Act covers the working poor, and thereby includes them in the efforts of the Nation to eliminate poverty. Those who are employed and still poor will have their wages supplemented as well as those who are not able to work.

We estimate that among the population covered by the Family Assistance Act, there are 1.8 million family heads who work full time, for a full year, and still suffer the affliction of poverty. This is a larger number than those who do not work at all.

It is a group, we believe, that deserves the concern of the Nation and inclusion in the legislation which is before you.

RELIANCE ON THE REGULAR ECONOMY FOR JOBS

We believe that "work experience" programs, in which people are employed for temporary periods in public service jobs, are a useful component of a comprehensive manpower system. Such programs can be helpful in cases where there is no recent experience in employment by providing an opportunity to learn the demands of work.

It is not our intent to create jobs in the public sector especially for the hard-core unemployed as a way of solving manpower problems. We believe that such jobs are not a solution to employment problems, and represent instead a failure to face up to the more difficult task of equipping individuals to compete for the ever increasing number of real jobs that our economy is producing. We estimate that there will be 2 million job openings a year in clerical, sales, and operative occupations.

The problem, as we see it, is to remove people who can work from positions of economic dependence. We believe this means they should not have to depend on government supplying their work and their wages, just as much as it means that they should strive for independence from public welfare. A welfare job is no substitute for a welfare check.

Neither do we believe that public employment should be a basis for guaranteeing jobs. Government should assume a responsibility for maintaining a healthy economy that produces enough jobs, and commit itself to preparing people to fill those jobs. We want no work inventing system that offers a way around this basic responsibility.

In fact, regular public employment in State and local governments is increasing every year. We have launched

efforts to channel disadvantaged persons into those jobs, in much the same way that private employers are encouraged to hire and train such workers in the JOBS program run by the National Alliance of Businessmen. We are interested in developing more of these regular public jobs for the disadvantaged.

The Manpower Training Act provides authority for the kind of work projects that I have described. The Family Assistance Act, which is written to parallel the Manpower Training Act with regard to the services offered, also includes such authority. We intend to use it where it applies, in a context of moving people into regular jobs. But we do not expect it to be a major feature of the manpower program.

Mr. Chairman, these are the main points I wanted to make in my formal statement.

We recognize that this new departure in welfare will require a substantial initial investment. But we believe that a transformed system will set in motion forces that will lessen dependency and foster economic growth. These substantial "start up" costs now will ultimately cost us

less as a Nation, both in terms of dollars expended and lives wasted and warped.

This program has had the benefit of extended analysis and discussion, at the highest levels, and throughout the Administration. We feel we are right about the need to reform welfare, and the directions we have chosen. As we remove the barriers to employment through training and child care programs, and as we build work incentives into the allowance structure--and remove the disincentives--welfare people will go to work and the upward spiral of costs will be reversed.

Through the centuries our social policies have become much more humane, but whatever the purity of our intentions, actions have often been perverse, with a tendency to punish as well as protect. The right to life for all our citizens is a matter that calls for our best effort, and our most considered judgment.

I recall to you the opening words of the President's message, that "A measure of the greatness of a powerful nation is the character of the life it creates for those who are powerless to make ends meet."

SOCIAL SECURITY CHARTS

1969 LEGISLATIVE RECOMMENDATIONS

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
Social Security Administration

OCTOBER 1969

LEGISLATIVE CHARTS

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1. 10% BENEFIT INCREASE
2. INCREASE IN EARNINGS BASE TO $9000
3. ELIMINATION OF WORK DISINCENTIVES IN THE RETIREMENT TEST
4. FUTURE AUTOMATIC ADJUSTMENT OF BENEFITS, EARNINGS BASE, AND RETIREMENT TEST
5. INCREASE IN WIDOW'S BENEFITS
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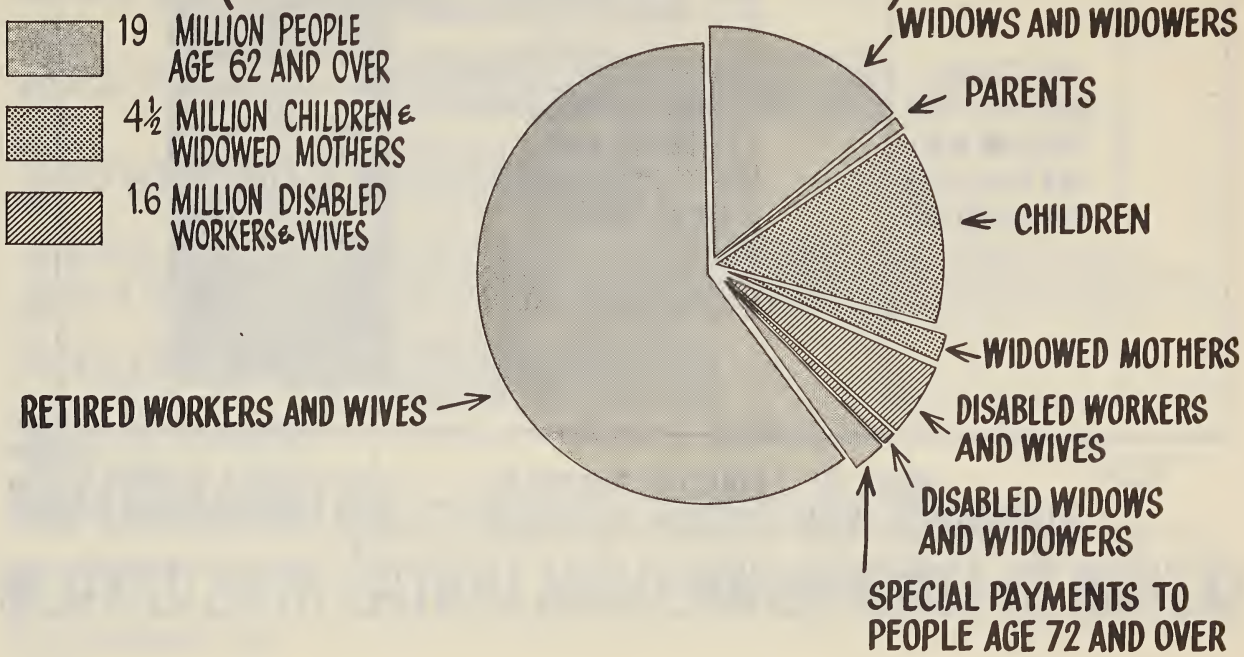
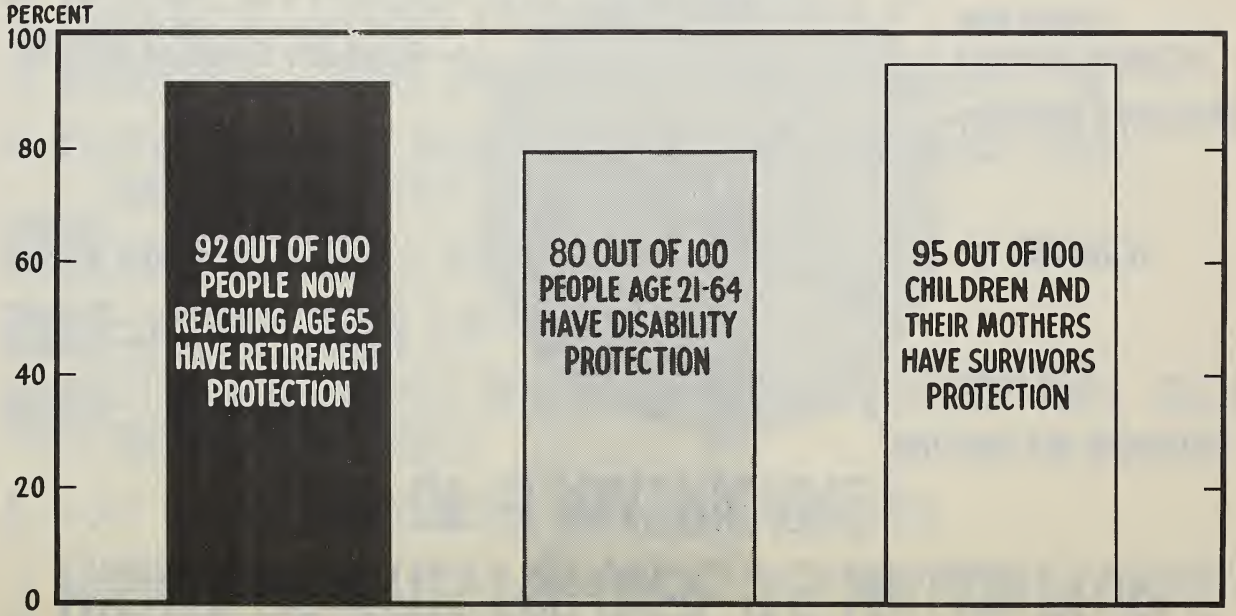
9. RESTORATION OF ACTUARIAL BALANCE OF HOSPITAL INSURANCE PROGRAM
10. MODIFICATION IN CONTRIBUTION RATE SCHEDULES

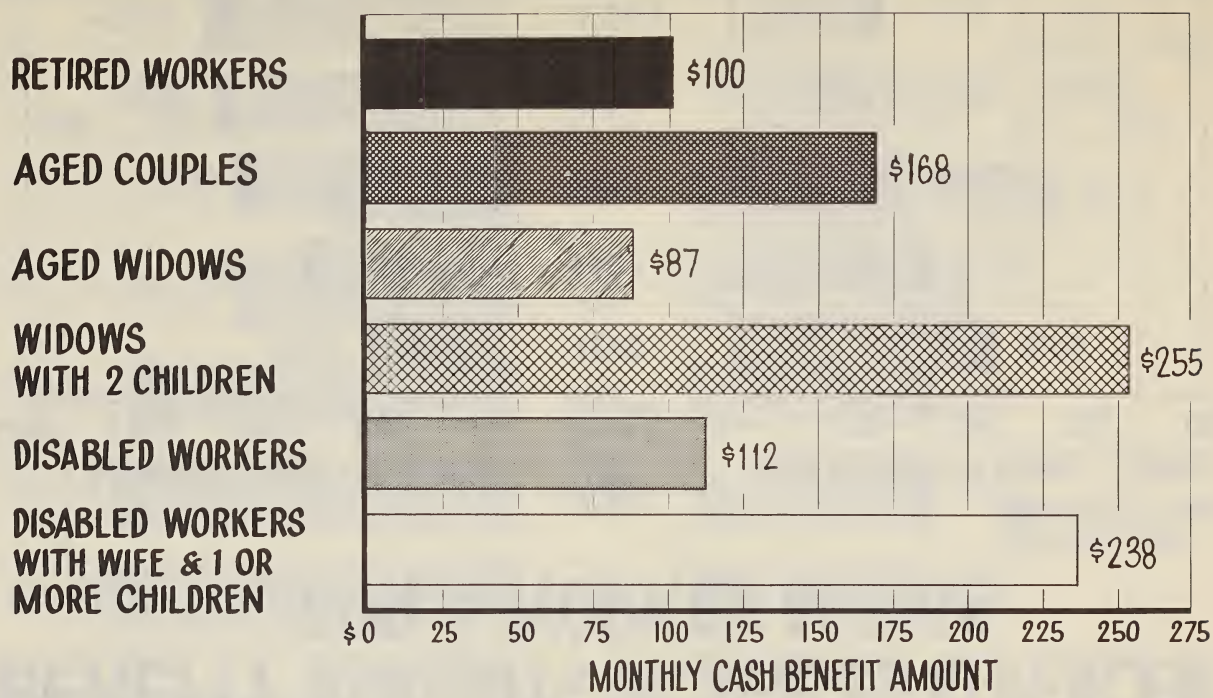
HIGHER BENEFITS FOR OVER 25 MILLION PEOPLE (1 OUT OF 8 AMERICANS)



INCREASED SOCIAL SECURITY PROTECTION FOR NEARLY ALL WORKERS AND THEIR FAMILIES -- 92 MILLION WORKERS WILL CONTRIBUTE TO SOCIAL SECURITY IN 1969

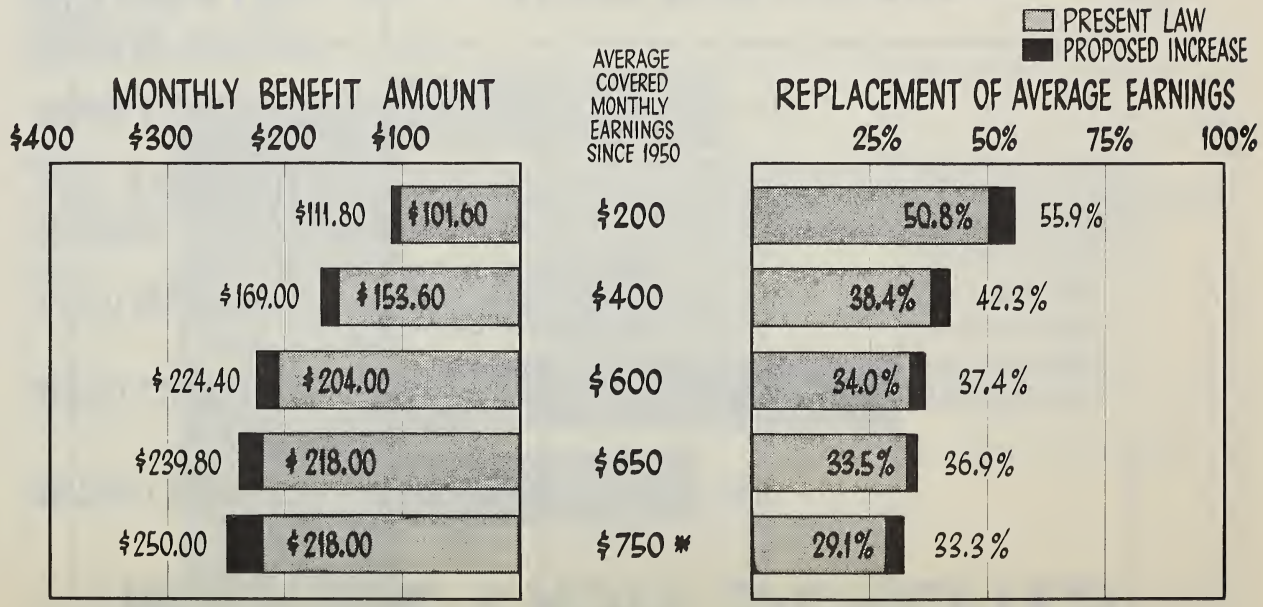


AVERAGE CASH BENEFITS*



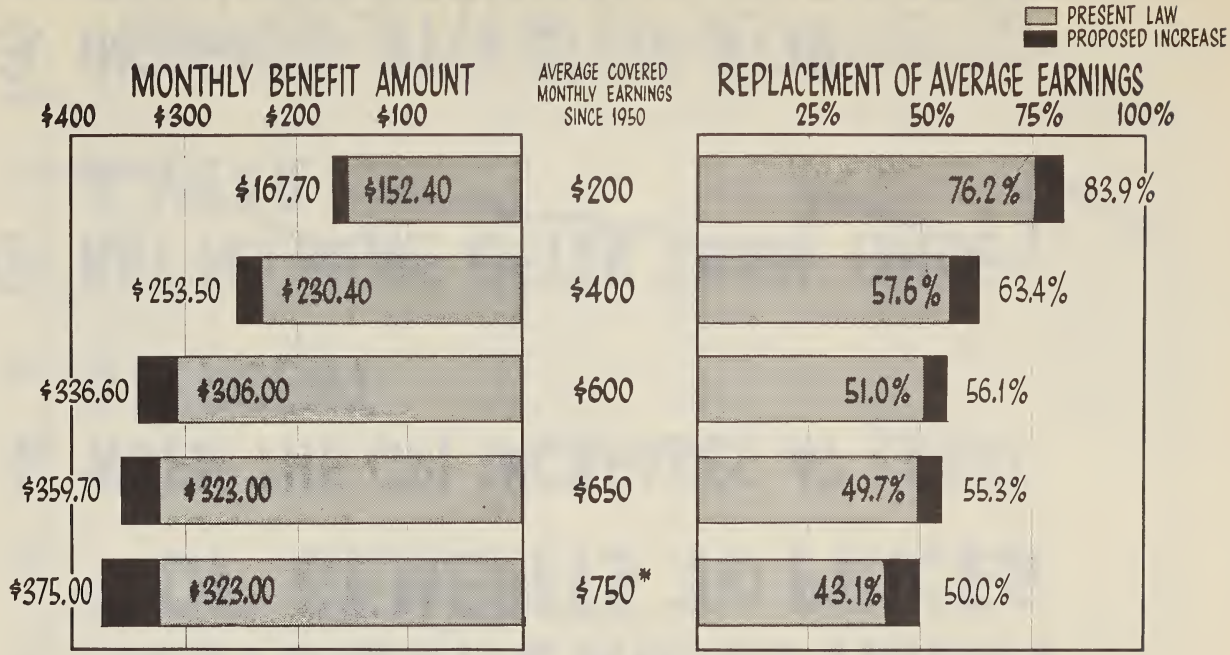
*UNDER PRESENT LAW

BENEFIT AMOUNTS INCREASED 10 PERCENT FOR A WORKER AGE 65



* MAXIMUM ANNUAL EARNINGS COUNTED — $9000

BENEFIT AMOUNTS INCREASED 10% FOR A COUPLE AGE 65



* MAXIMUM ANNUAL EARNINGS COUNTED – $9000

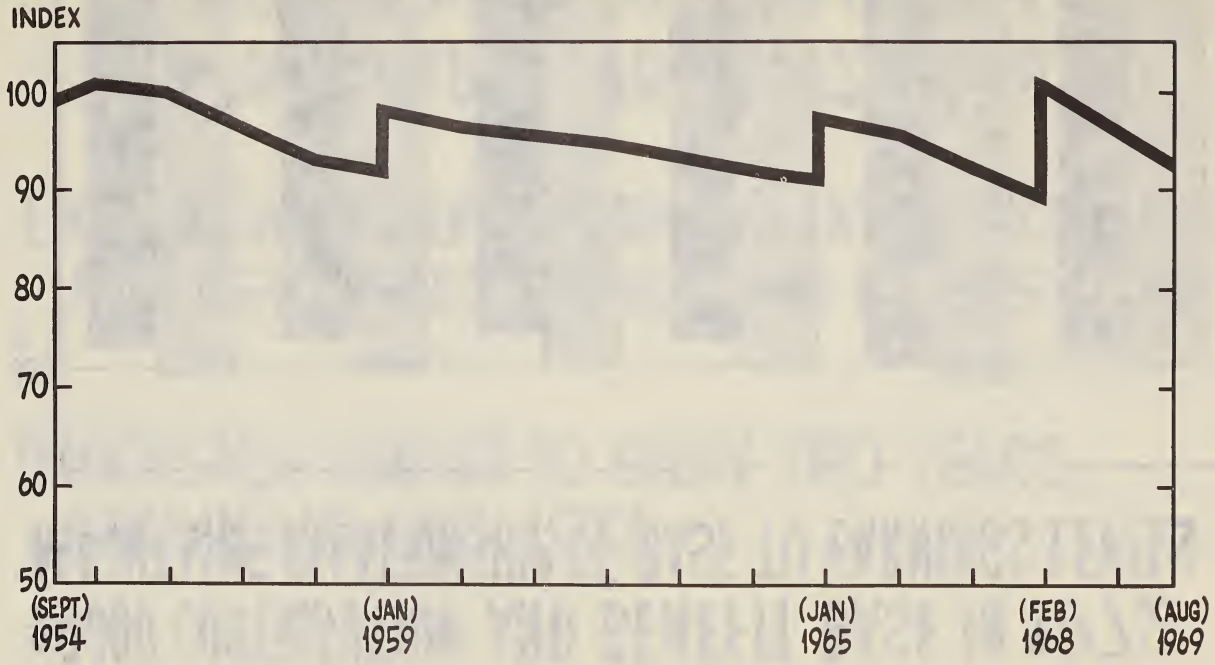
AUTOMATIC ADJUSTMENT OF BENEFITS TO PRICES

1. WHEN THE CPI INCREASES AT LEAST 3 PERCENT

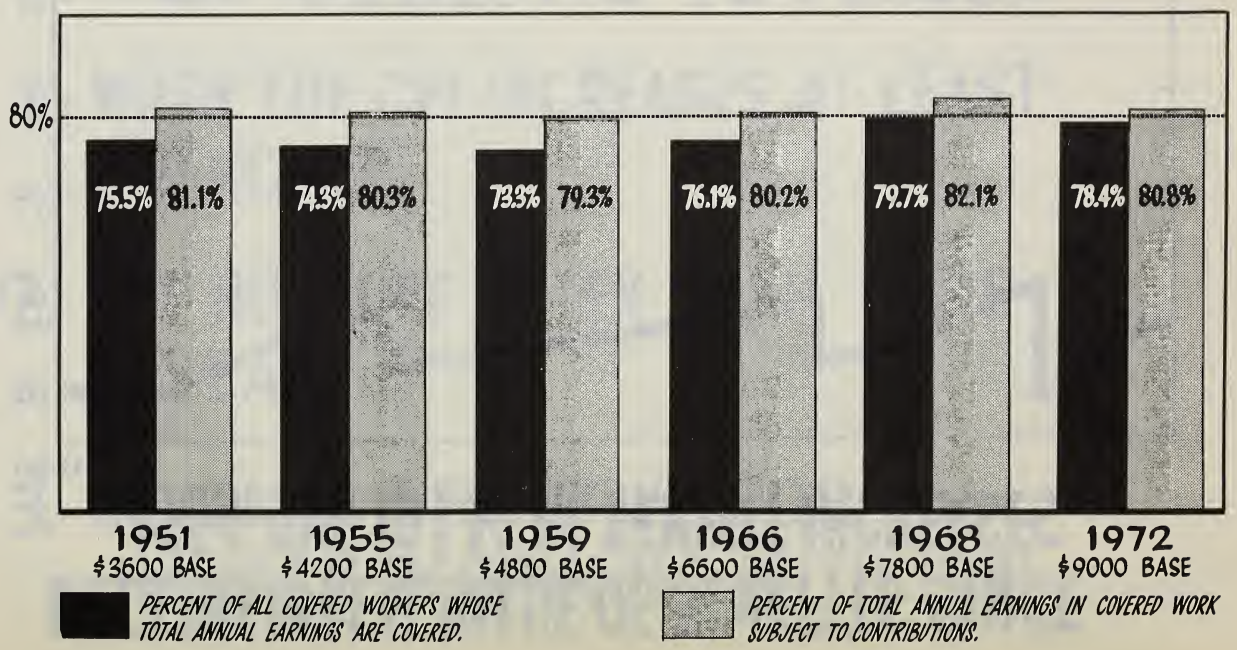
2. BUT NO MORE OFTEN THAN ONCE A YEAR

3. INCREASES EFFECTIVE FOR JANUARY, BEGINNING WITH 1971

DECLINE IN REAL VALUE OF BENEFITS SINCE 1954 DUE TO LAG IN BENEFIT INCREASES



$9000 CONTRIBUTION AND BENEFIT BASE IN 1972 MAINTAINS RELATIONSHIP OF BASE TO EARNINGS LEVELS



AUTOMATIC ADJUSTMENT OF MAXIMUM EARNINGS COUNTED

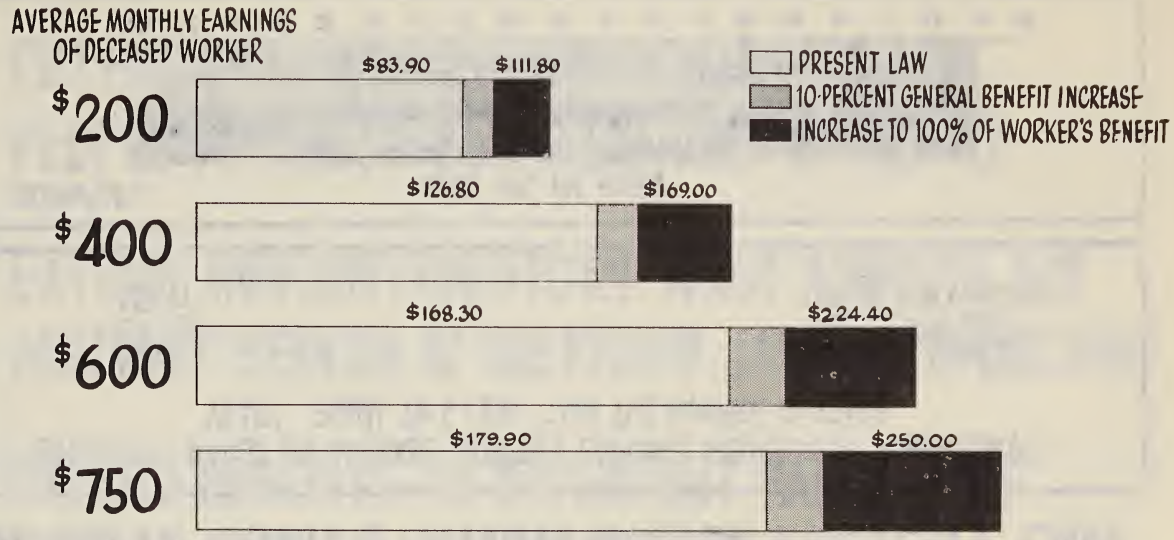
1. MAXIMUM INCREASED BY PERCENTAGE INCREASE IN AVERAGE WAGES, ROUNDED TO NEAREST $600

2. INCREASE LIMITED TO EVERY TWO YEARS, BEGINNING WITH 1974

ELIMINATING WORK DISINCENTIVES IN THE RETIREMENT TEST

	PRESENT	PROPOSED
ANNUAL EXEMPT AMOUNT	$1680	$1800
$1-for-$2 ADJUSTMENT	$1680-$2880	Above $1800
$1-for-$1 ADJUSTMENT	Above $2880	———
MONTHLY MEASURE	$140	$150

WIDOW'S BENEFIT AT AGE 65 INCREASED TO 100% OF WORKER'S BENEFIT*



* INCLUDES THE EFFECT OF THE HIGHER BENEFITS PAYABLE ON THE HIGHER EARNINGS THAT ARE CREDITABLE UNDER THE BILL

BENEFIT COMPUTATION UNDER PRESENT LAW

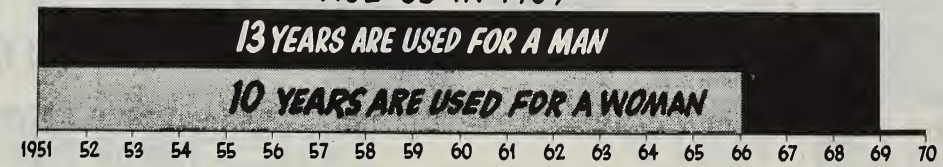
BENEFITS BASED ON AVERAGE MONTHLY EARNINGS FIGURED OVER A NUMBER OF YEARS EQUAL TO 5 LESS THAN THE NUMBER OF YEARS

AFTER
1950 OR
AGE 21

UP TO THE YEAR OF
AGE 65 FOR MEN
AGE 62 FOR WOMEN

EXAMPLE:

AGE 65 IN 1969



BENEFIT ELIGIBILITY ALSO FIGURED

UP TO AGE 65 FOR A MAN

UP TO AGE 62 FOR A WOMAN

OTHER IMPROVEMENTS IN SOCIAL SECURITY PROTECTION

- EXTEND CHILDHOOD DISABILITY BENEFITS TO PEOPLE DISABLED BETWEEN AGES 18 AND 22
- EXTEND NONCONTRIBUTORY WAGE CREDITS FOR MILITARY SERVICE TO THE PERIOD JAN. 1957 TO DEC. 1967
- EXTEND BENEFITS TO DEPENDENT PARENTS OF RETIRED AND DISABLED BENEFICIARIES

AMENDMENTS AFFECTING HEALTH BENEFIT COSTS

1. Tie depreciation payments to State health planning.
2. Make corporate planning a condition of participation.
3. Expand authority for reimbursement experimentation.
4. Bar providers and physicians who abuse the program.
5. Pay customary charges if less than cost.
6. Withhold payment where UR finds admission not warranted.
7. Authority to estimate overpayments for recoupment.

STATUS OF THE CASH-BENEFITS TRUST FUNDS

	ACTUARIAL BALANCE (PERCENT OF PAYROLL)
AFTER 1967 AMENDMENTS (FEB. 1968)	+0.01%
1969 TRUSTEES' REPORT (JAN. 1969)	+0.53
REVISED COST ESTIMATE (SEPT. 1969)	+1.16

STATUS OF THE HOSPITAL INSURANCE TRUST FUND

	ACTUARIAL BALANCE (PERCENT OF PAYROLL)
AFTER 1967 AMENDMENTS (FEB. 1968)	+0.03%
1969 TRUSTEES' REPORT (JAN. 1969)	-0.29
REVISED COST ESTIMATE (SEPT. 1969)*	-0.77

* Preliminary

CONTRIBUTION RATES FOR EMPLOYEES AND EMPLOYERS

YEAR	CASH BENEFITS		HOSPITAL INSURANCE		TOTAL	
	PRESENT LAW	PROPOSAL	PRESENT LAW	PROPOSAL	PRESENT LAW	PROPOSAL
1970	4.2%	4.2%	0.60%	0.6%	4.80%	4.8%
1971-72	4.6	4.2	0.60	0.9	5.20	5.1
1973-74	5.0	4.2	0.65	0.9	5.65	5.1
1975	5.0	4.6	0.65	0.9	5.65	5.5
1976	5.0	4.6	0.70	0.9	5.70	5.5
1977-79	5.0	4.8	0.70	0.9	5.70	5.7
1980-86	5.0	4.9	0.80	0.9	5.80	5.8
1987 & AFTER	5.0	5.0	0.90	0.9	5.90	5.9

ESTIMATED PROGRESS OF THE HOSPITAL INSURANCE TRUST FUND

Under Present Law and under Proposal, 1970-1973

(In Billions)

FISCAL YEAR	INCOME		OUTGO		NET INCREASE IN FUNDS	
	PRESENT LAW	PROPOSAL	PRESENT LAW	PROPOSAL	PRESENT LAW	PROPOSAL
1970	$5.5	$5.5	$5.3	$5.3	$0.2	$0.2
1971	5.9	7.1	6.3	6.3	-0.5	0.7
1972	6.0	8.7	7.4	7.4	-1.5	1.2
1973	6.3	9.6	8.6	8.6	-2.2	1.0

ESTIMATED PROGRESS OF THE CASH-BENEFITS TRUST FUNDS
Under Present Law and under Proposal, 1970-1973
(In Billions)

FISCAL YEAR	INCOME		OUTGO		NET INCREASE IN FUNDS	
	PRESENT LAW	PROPOSAL	PRESENT LAW	PROPOSAL 1/	PRESENT LAW	PROPOSAL
1970	$35.2	$35.2	$28.4	$29.1	$6.8	$6.1
1971	38.6	36.8	29.6	32.9	8.9	3.9
1972	43.1	39.3	30.8	35.4	12.3	3.9
1973	47.4	43.4	32.0	36.5	15.4	6.8

1/ ASSUMES NO AUTOMATIC INCREASES IN BENEFITS UNDER THE COST-OF-LIVING PROVISION

FINANCING HOSPITAL INSURANCE BENEFITS

	PERCENT OF PAYROLL		
	LEVEL COST OF BENEFITS	LEVEL EQUIVALENT OF INCOME	BALANCE
PRESENT PROGRAM*	2.27	1.50	-0.77
PROPOSALS:			
CONTRIBUTION BASE	-0.17		
AUTOMATIC ADJUSTMENT OF BASE	-0.39		
CONTRIBUTION RATES		0.27	
PROPOSED PROGRAM	1.71	1.77	+0.06

*Preliminary

FINANCING SOCIAL SECURITY CASH BENEFITS

	PERCENT OF PAYROLL		
	LEVEL COST OF BENEFITS	LEVEL EQUIVALENT OF INCOME	BALANCE
PRESENT PROGRAM	8.72	9.88	+1.16
PROPOSALS[1]			
CONTRIBUTION BASE	-0.23		
BENEFIT INCREASE	0.79		
WIDOW'S BENEFITS	0.25		
AGE-62 COMPUTATION POINT FOR MEN	0.10		
RETIREMENT TEST LIBERALIZATION	0.08		
OTHER IMPROVEMENTS	0.01		
CONTRIBUTION RATE POSTPONEMENT		-0.25	
PROPOSED PROGRAM	9.72	9.63	-0.09

[1] *VARIOUS AUTOMATIC ADJUSTMENT FEATURES AS A WHOLE DO NOT INCREASE THE COST OF THE PROGRAM AS A PERCENT OF PAYROLL.*

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ADDITIONAL PAYMENTS IN FIRST FULL CALENDAR YEAR AND NUMBER OF PEOPLE AFFECTED

PROVISION	ADDITIONAL PAYMENTS (IN MILLIONS)	BENEFICIARIES IMMEDIATELY AFFECTED (IN THOUSANDS)	NEWLY ELIGIBLE PEOPLE (IN THOUSANDS)
10 % BENEFIT INCREASE	$2,997	25,500	12 1/
MODIFICATION OF RETIREMENT TEST	350	800	300 2/
AGE-62 COMPUTATION POINT	392	5,000	100
INCREASE IN WIDOW'S BENEFITS	610	2,700	--
OTHER IMPROVEMENTS	62	150	38
TOTAL	$4,411	(3/)	(3/)

1/ NONINSURED PEOPLE AGED 72 AND OVER WHO CAN NOT GET BENEFITS UNDER PRESENT LAW.
2/ PEOPLE WHO CAN GET NO BENEFITS FOR 1971 UNDER PRESENT LAW BUT WHO WOULD GET SOME BENEFITS UNDER THE PROPOSAL.
3/ FIGURES ARE NOT ADDITIVE BECAUSE TIME PERIODS ARE NOT UNIFORM AND BECAUSE A PERSON MAY BE AFFECTED BY MORE THAN ONE PROVISION.

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